



## **PUT DOWN THE MOBSTER PLAY BOOK AND ASK, “CAN WE AFFORD IT?”** Michelle Steel, Vice Chair, State Board of Equalization

December 15, 2011

*[Publisher's Note: As part of an ongoing effort to bring original, thoughtful commentary to you here at the FlashReport, I am pleased to present this column from Board of Equalization Member Michelle Steel. - Flash]*

*If you are new to the FlashReport, please check out the [main site](#) and the acclaimed FlashReport Weblog on California politics.*

We won't have to wait until January to see the gimmicks in next year's budget.

In his press conference on trigger cuts on Tuesday, Governor Brown said he would include the projected revenue of his proposed tax increases – \$7 billion annually for five years – in his January budget, even though they won't be up for a vote until November. He says that if voters refuse to pass the tax hikes, he will propose new trigger cuts for the end of next year.

He claims this will lead to a balanced budget that is “credible.” He's not just inventing money out of thin air; he's balancing it with cuts a year down the road – or with tax increases. But, if what he wants is a balanced budget, then why not balance it without this trick?

Brown is taking a page from the mobster playbook. He is giving the hardworking taxpayers of California an offer they can't refuse. The Governor is saying, in essence, “we're going to spend an extra \$7 billion more than we take in next year, and if you don't pass the tax increases I want, well let's just say some programs you want to keep might be swimming with the fishes. Instead of taking the blame for spending too much, we'll blame you for refusing to give us more of your money.”

What Brown and his allies refuse to see is that taxpayers' wallets have already been picked clean.

That taxpayers cannot afford to pay more to the government is not just an assertion. John Seiler at [CalWatchdog.com](http://CalWatchdog.com), has taken it upon himself to do what many in government refuse to: to actually study the relationship between California incomes and government spending. He calls his results Seiler's First and Second Laws of the California Budget.

Seiler's First Law states that the government cannot spend more from the general fund than 6.2 percent of California's average personal income. By studying personal income versus general fund spending from 1970 to 2010, Seiler found that every time spending rises above 6.2 percent of personal income, the state goes into recession. It then takes a couple of years of spending well below 6.2 percent to recover.

Seiler's Second Law says that, for most years, the ratio of general fund spending to median household income is about 1/25; government simply cannot spend more without putting the state in the red.

These laws provide a simple solution: if the state wants to increase general fund spending, it must enact policies that allow personal income and median household income to rise.

Unfortunately, incomes in California are dropping. The Public Policy Institute of California says that median incomes dropped by more than 5 percent between 2007 and 2009, and dropped another 6 percent between 2009 and 2010. Yet, the Governor proposes to increase income tax rates for incomes over \$250,000, and sales tax rates for everyone.

As Seiler says, Higher income tax rates will "chase away" businesses that create median-income jobs, and suppress the incomes of those who already have jobs. That's because government revenue doesn't grow on the Taxpayer Tree. It comes out of the incomes that individual Californians work hard to earn. It can only increase when taxpayers' incomes increase, not by extortion.

Small businesses that pay income tax at the individual rate are responsible for 80 percent of job creation in California. They can't afford to increase salaries or hire new employees when tax rates rise. And consumers can't spend as much as they'd like to when they have to pay more in sales tax on every item they buy. Squeezing these taxpayers won't solve our long-term problems, it will only make them worse.

At his press conference, Governor Brown said "you can't provide money you don't have," and "we have to live within our means." He's right. It's time to put down the mobster playbook. We can't afford it.